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Rhonda

Mining Corporation

ANNUAL REPORT
DECEMBER 31, 1997



CORPORATE PROFILE

Rhonda Mining Corporation is an Alberta incorporated mineral exploration company based in Calgary. Rhonda and Noranda Mining and Exploration Inc. are joint venture partners in the Esker deposit in Nunavut. Esker is a very large sediment-hosted lead-zinc deposit in an advanced stage of exploration work.

Rhonda holds a 47 per cent interest in Cartier Mining Corporation which is in its fifth year of exploring for large diamondiferous kimberlite and sandstone occurrences near Prince Albert, Saskatchewan.

Rhonda also holds a 28 per cent interest in Savanna Resources Ltd., an international mineral exploration company actively exploring for and developing gold deposits in Suriname, South America.

Rhonda's shares are traded on the Alberta Stock Exchange under the symbol RDM.

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ANNUAL GENERAL MEETING

The annual general meeting of shareholders of Rhonda Mining Corporation will be held on June 23, 1998 at 3:00 p.m. at The Westin Hotel, 320 - 4th Avenue S.W., Calgary, Alberta.

FRONT COVER

An Inukshuk over-seeing the Esker Pb-Zn deposit.

CHAIRMAN'S REPORT TO THE SHAREHOLDERS

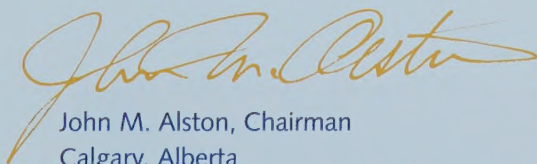
During 1997 the implications of our Esker mineral discovery became clear. This lead-zinc discovery, situated southeast of Kugluktuk, Nunavut, has developed into a high-tonnage sulfide deposit, the largest known deposit of its type. Together with our Harley copper-silver discovery and the extremely promising results of a regional lake sediment geochemical survey, it is clear that Rhonda's property ownership places the company in an enviable position in the new Epworth Mineral Province.

These developments are the result of Rhonda's persistent search, with partner Noranda Mining and Exploration Inc., for large stratabound sediment-hosted base metal deposits in the Proterozoic sediments in the Epworth area. During 1998 we anticipate expanding our presence in the Proterozoic basins with new joint venture partners. We expect to make several new base metal discoveries based on lake sediment geochemical survey results.

Since our last report Rhonda signed private placement agreements covering 315,000 flow-through common shares for proceeds of \$252,000. Additionally \$2,129,283 was raised through the sale of shares of Purcell Energy Ltd.

Although our industry is presently experiencing the effects of lower base metal prices and low investor confidence we do recognize that these conditions are cyclical. We have moved forward positively from year to year, and are in a position to lead the Canadian junior base metal explorers in 1998. I would like to thank our employees for their contribution to this success. With their continuing support we anticipate 1998 will prove a most successful year.

ON BEHALF OF THE BOARD



John M. Alston, Chairman
Calgary, Alberta
May 8, 1998



Rhonda geologist Dale Mah (foreground) with University of Toronto graduate students Andrew Conley and Nawojoka Wachowiac, logging drill core from the Esker Pb Zn deposit.

EXPLORATION ACTIVITIES

Rhonda is exploring for sediment hosted base metal deposits in the little explored Epworth Proterozoic sedimentary basin in Northern Canada.

In 1997 activities focused on expanding our knowledge of the Esker lead-zinc deposit, and on the base metal potential of the whole basin. The results have established the Epworth Mineral Belt as a major new base metal province. In an adjacent sedimentary basin west of the Epworth Mineral Belt, Rhonda discovered the Harley copper-silver deposit.

An extensive lake sediment geochemical program was carried out on joint venture and 100% owned land in 1997, results of which are extremely encouraging. Lake sediment geochemistry has proven to be an effective exploration method for evaluating Rhonda's large properties.

Rhonda's calendar year 1997 field exploration expenditures totalled \$3,100,000, of which \$2,500,000 were spent on the Noranda Epworth Joint Venture lands and \$600,000 on the 100% Rhonda properties. A total of 124 holes (9055m) were completed, of which 114 (7905m) were drilled on the Esker deposit.

The joint venture lands are in the territory of Nunavut which will gain official status in April 1999. Mining will be the cornerstone of Nunavut's self-sufficiency plans; and the cornerstone of an Arctic mining industry will be the development of ground and port infrastructure. With existing Arctic mining operations nearing the end of their productive lives, large long-life undeveloped base metal deposits, such as the Esker lead-zinc deposit, the Izok copper lead-zinc deposit, and the newly recognized potential of the Epworth Mineral Belt, will require an expanded port and land infrastructure to ensure an economic base. Nunavut recognizes this and wants "to own or control the infrastructure that will support development of the mining industry".

EPWORTH JOINT VENTURE

The Epworth Joint Venture property, totaling 220,000 acres, is owned 60% by Rhonda and 40% by Noranda Mining and Exploration Inc. The joint venture's Esker lead-zinc deposit is situated 80 km south of the Arctic coast, 128 km southeast of Kugluktuk, and 450 km north of Yellowknife, NWT.

The Esker lead-zinc deposit is the largest known deposit of its type. Reserves of 16.6 million probable and possible tonnes have been calculated, along with a resource of 64 million tons.

RESERVE SUMMARY

	Tons	% Zn	% Pb	% Pb + Zn
Probable	1,900,000	3.5	1.2	4.7
Possible	14,700,000	3.7	1.0	4.7
Geological Resource	64,000,000			4.5

Esker is a sheet-like deposit with high and low grade portions. It has been folded, faulted and eroded to its present state. A reconstruction of the deposit to its pre-erosion extent suggests that Esker originally was a super-giant lead-zinc deposit containing more than 200,000,000 tonnes (18,000,000 000 pounds of insitu lead and zinc). This is key to exploration in the region, for it establishes the real potential of the Epworth Mineral Belt. Mineralizing systems that form Esker-size sediment-hosted base metal deposits characteristically produce several such deposits, not one, thus forming a multiple mine mineral belt. Taken in context with the results of Rhonda's lake sediment geochemical survey, the 1998 exploration program is expected to produce several new base metal discoveries on joint venture and 100% owned Rhonda properties.

The Muskox zone is a distinctive part of the Esker deposit. It is characterized by massive sphalerite and galena in-filling large voids in a carbonate stromatolite reef. The best drill hole intercept in the Muskox zone returned values of 11.82 % lead and 12.64 % zinc over 4.38 m (hole E-97-074). The massive sulfides are interpreted to have deposited in solution breccia cavities (secondary porosity) related to structures and/or emergent portions of the reef rocks. Probable and possible reserves at the Muskox zone are calculated to be 1,140,000 tonnes at 2.35% lead and 4.52% zinc; the zone is open on trend and at depth.

The westerly extension of the Muskox zone in the main synclinal structure, and its easterly down-dip trend, will be the main focus of Rhonda's 1998 exploration program. Rhonda also recognizes the potential for a large open-cut resource situated along the gently west-dipping eastern edge of synclinal structure, and will be drill-testing this further.

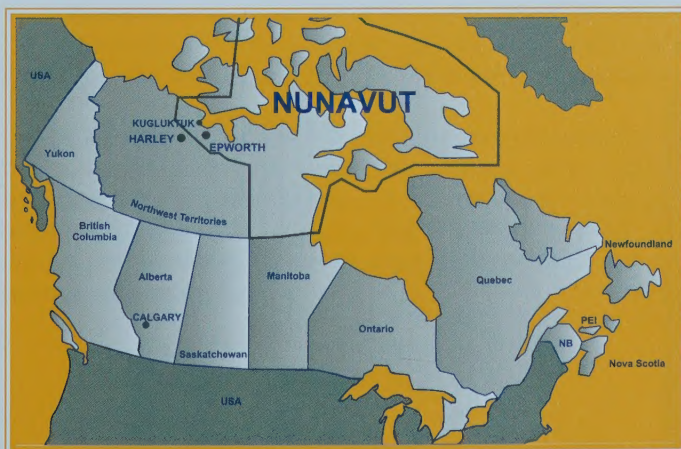
Elsewhere on the joint venture lands Rhonda drilled two other stratabound base metal zones, the Algal (copper) and the Musket (lead-copper). Algal is a significant bornite-chalcopyrite sulfide occurrence in black lagoonal calcareous mudstones (2.54% copper and 52 g/t silver over 2.3 m; hole A97-5) while Musket is a quartzite-hosted deposit (4.63% lead, 0.37% copper, 21.4 g/t silver over 3.0 m; hole M97-5). Work will continue at both of these occurrences.

During 1997 Rhonda also completed an extensive regional lake sediment geochemical sampling program. The Esker lead-zinc deposit is clearly identified by high values (anomalous) of lead, zinc and silver in sediment samples from lakes at Esker. Two new copper-lead-zinc anomalies were located on the joint venture lands 70 km to the southwest of Esker.

During 1998, Rhonda plans to spend \$1.2 million dollars on joint venture geology, prospecting, geochemistry and bedrock drilling programs.

ROCKNEST

Rhonda owns 100% of the 420,000 acre Rocknest property adjoining the southern part of the Epworth Joint Venture lands. During 1997 an extensive lake sediment geochemical program was carried out delineating several areas with anomalous lead, zinc, copper and silver values. Sediments with values two to three times the Esker lake sediment values have been located (up to 0.34% lead-zinc). These anomalous results suggest that other base metal mineral deposits similar to Esker are present on the Rocknest property. Rhonda plans on spending \$700,000 in 1998 on prospecting, geology and bedrock drilling as a follow up to the lake sediment geochemical survey.



Southeast of Kugluktuk Coppermine and 80 km south of the coast. Rhonda deposits on the Epworth J. V. lands (60% owned) and on the Harley property (100% owned).

HARLEY

The Harley property (48,000 acres), located 60 kilometres south of Kugluktuk (Coppermine), NWT, is owned 100% by Rhonda. The Harley is a stratiform copper-silver deposit hosted within volcanoclastic sedimentary rocks of Proterozoic age. Previous exploration in the area focused on uranium mineralization, and although no significant uranium occurrences were ever found, trenching did yield promising sediment-hosted copper and silver grades. In particular, assays from two trenches 1.5 km apart revealed significant copper grades of 2.8% copper and 148.5 g/t silver over 3 m and 1.49% copper over 2 m. To investigate these promising sediment hosted copper-silver showings, Rhonda commenced preliminary exploration during 1996 and completed two diamond drill holes, H97-1 and H97-2 in 1997. The holes were drilled beneath the higher grade trench to confirm the sediment-hosted style of mineralization and to extend the copper-silver zone to depth. Both drill holes yielded promising intersections:

Hole H-97-1, drilled north at -38°, intersected two mineralized sections:

Core Interval (m)	Thickness (m)	%Copper	oz/t gold
6.9 - 10.9	4.0	2.55	1.79
16.7 - 18.4	1.7	1.52	0.15

Hole H-97-2, drilled north at -50°, also intersected two sections:

Core Interval (m)	Thickness (m)	%Copper	oz/t gold
7.7 - 12.3	4.6	2.40	2.89
14.1 - 17.9	3.8	1.30	0.05

The Harley sulfide mineralization consists of bornite, chalcopyrite and pyrite. The zone extends in outcrop for 75 meters and then intermittently over several kilometres, with chalcopyrite, bornite, native copper and pyrite showings. The Harley showings are indicative of a large regional metalliferous mineralizing system, and form an attractive exploration target for the discovery of new large deposits of copper and other metals.

The 1998 program, budgeted at \$500,000, will include an expanded lake sediment geochemical survey, geology, prospecting and bedrock drilling.

OTHER PROPERTIES

Rhonda's 100% owned gold properties in the Courageous Lake gold belt, lie 40 km west of the Lac de Gras diamond area. The Courageous Lake properties are strategically located along 24 km of a 50 km long gold belt. Rhonda's properties lie immediately north of and adjoin the FAT gold deposit (14,500,000 tons grading 0.28 oz/t gold). FAT is being actively explored by Placer Dome Inc. and is considered the largest undeveloped gold deposit in the NWT. Rhonda is not planning to carry out exploration work on the Courageous Lake gold properties in 1998.



Diamond drill on the Algal copper prospect (Rhonda - Noranda J.V.).

INVESTMENTS

SAVANNA RESOURCES LTD. (28% OWNED)

Rhonda Mining Corporation holds a 28% interest in Savanna Resources Ltd., an international mineral exploration company with properties in the United States and South America.

In 1996 Savanna's management team became focused on acquiring a new project that would allow for company growth and increased shareholder value. Following a review of various Precambrian shield areas of the world attention narrowed to a greenstone belt within the Guiana Shield of South America which has received relatively little exploration, yet historically has produced millions of ounces of gold from surface mining dating back to the 1600's. The bedrock showings throughout this belt are similar to those of the Canadian Precambrian gold mining camps.

In partnership with two Suriname companies, Savanna has acquired the exploration rights to over 110,000 hectares of permits strategically located within this gold-bearing greenstone belt in eastern Suriname (formerly Dutch Guyana). Savanna holds the option on a 75 per cent interest in both bedrock and alluvial gold on the large Brokopondo permit along the east side of Brokopondo Lake and one smaller block of land to the north. On the Lawa permit to the southeast Savanna holds a 60 percent interest in bedrock gold and a 50 percent interest in alluvial gold. Additional permits are being actively pursued and will increase Savanna's presence in the area.

The independent nation of Suriname lies at the top of South America, between Guyana to the west, French Guiana to the east and Brazil to the south. The occurrence of gold was first documented by the Europeans in 1687; the rich alluvial deposits discovered around Sara Kreek (Brokopondo permit) and the Lawa River in the 1800's are the source areas for many large gold nuggets, one weighing 6300g (200 oz). Suriname can be divided into a crystalline basement, or shield area, and a coastal plain. Within the shield area, the Trans-Amazonian metavolcanic/metasedimentary greenstone belt hosts numerous mineralized bedrock showings typical of known gold belts elsewhere in the world, with the gold occurring in quartz flooded, pyritic, altered rocks and structures. Over 60 million years of tropical weathering and meandering streams over this topographically flat area has produced a blanket of gold bearing alluvium, areas of which are of economic grade.

The Lawa permit is the most advanced of the two properties. Initial results based on a bulk sampling and test pit program have established proven and probable reserves of 1,300,000 m³ averaging 4.2g/m³. Possible reserves based on geological evidence and stream sediment sampling are calculated at 4,200,000 m³ and are conservatively expected to run better than 2g/m³. These reserves are surrounded by a potential resource of 19,700,000 m³ expected to average at least 1g/m³. Currently the 20 m³/hr Alaskan miner is being set up to commence the mining operation. Savanna proposes to initiate a full scale recovery project by adding a 60 m³/hr Alaskan to the operation at the higher grade pit area. Savanna's management team plans to utilize the cash flow from the Lawa alluvial operation to finance ongoing exploration of the bedrock gold bearing structures, ultimately leading to the definition of in-situ source deposits.

On the Brokopondo permit a stream sampling program has defined areas anomalous in gold. Savanna is now monitoring the numerous local mines working on the permit by licensing their operations. Data from these workings, supplemented by the stream sediment survey will provide valuable control for defining areas of economic alluvial accumulations and ultimately bedrock deposits. It is anticipated that in due course the alluvials will be mined using the same systems as on the Lawa permit, with cash flow once again financing bedrock reserve studies.

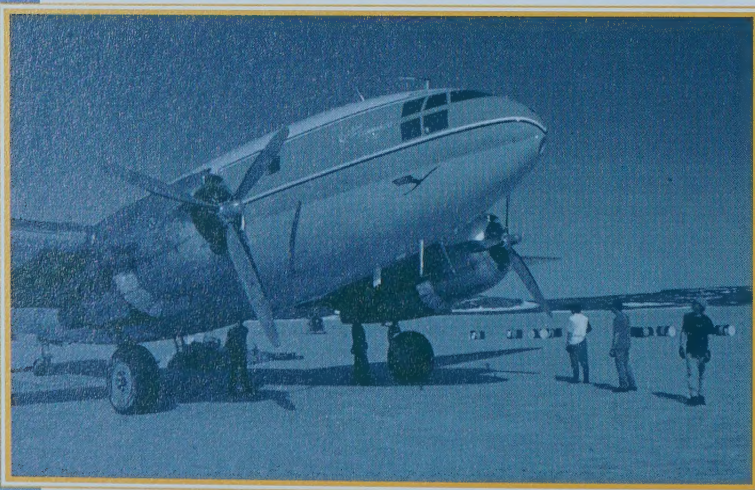
CARTIER MINING CORPORATION (47.2% OWNED)

Cartier is a Calgary-based mineral exploration company exploring for diamonds in the Fort a la Corne area of central Saskatchewan.

Results of exploration work at Fort a la Corne have now confirmed that the region contains totally preserved volcanic-sedimentary kimberlite complexes. Significantly, these complexes are gently dipping. Cartier's exploration programs are emphasizing the evaluation of the diamond content of kimberlite tuff and those sedimentary rocks derived from the kimberlite tuff on its 69,000 hectare property. Cartier's exploration program has identified four areas containing concentrations of diamonds. The deposits are located within a 50 meter sequence of shales, sandstones, siltstones and kimberlite volcanics.

A previous exploration program produced a 3.125 kilogram core sample of kimberlite-derived sandstone, which yielded six fragments of clear, colorless, gem-quality diamonds, including two macro diamonds.

At the time of writing the properties are being reviewed by an exploration company for a possible joint venture.



C-46 transport used during spring mobilization of supplies to Esker camp.

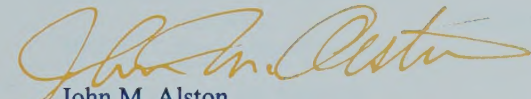
MANAGEMENT REPORT

The accompanying financial statements and all information in the annual report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies outlined in the notes to the financial statements. Financial statements include certain amounts based on estimates and judgments. Management had determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that in the financial statements.

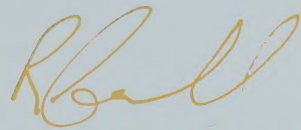
Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safe-guarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

BDO Dunwoody, the external auditors, conduct an independent examination of the financial statements in accordance with generally accepted auditing standards in order to express their opinion of the financial statements. Their examination includes a review and evaluation of the Corporation's system of internal control and such tests and procedures as considered necessary to provide reasonable assurance that the financial statements are presented fairly.

The audit committee of the Board of Directors, with a majority of its members being outside directors, have reviewed the financial statements including notes thereto, with management and BDO Dunwoody. The financial statements have been approved by the Board of Directors on the recommendation of the audit committee.



John M. Alston,
Chairman, President & CEO



Richard D. Carmichael, C.A.
Secretary – Treasurer & CFO

AUDITORS' REPORT TO THE SHAREHOLDERS


TO THE SHAREHOLDERS OF RHONDA MINING CORPORATION

We have audited the balance sheets of Rhonda Mining Corporation as at December 31, 1997 and June 30, 1997, and the statements of loss and deficit and changes in financial position for the six months and year then ended, respectively. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and June 30, 1997, and the results of its operations and the changes in its financial position for the six months and year then ended, respectively in accordance with generally accepted accounting principles.

Calgary, Alberta
May 8, 1998




BDO Dunwoody
Chartered Accountants

BALANCE SHEETS

AS AT DECEMBER 31, 1997 AND JUNE 30, 1997

	December 31 1997	June 30 1997
ASSETS		
CURRENT		
Cash	\$ 1,340	\$ 3,952
Accounts receivable	612,925	180,312
Note receivable	---	250,000
	614,265	434,264
DUE FROM AFFILIATED COMPANIES, note 3	81,623	1,932,998
DEBENTURE RECEIVABLE, note 4	2,720,000	---
INVESTMENT IN SHARES, note 5	2,965,581	4,473,033
CAPITAL ASSETS, note 6	8,969	10,241
MINERAL PROPERTIES AND DEFERRED COSTS, schedule	8,948,940	7,097,279
	\$ 15,339,378	\$ 13,947,815
LIABILITIES		
CURRENT		
Accounts payable	\$ 1,460,810	\$ 719,110
SHAREHOLDERS' EQUITY		
SHARE CAPITAL, note 8	42,627,365	37,642,566
DEFICIT	(28,748,797)	(24,413,861)
	13,878,568	13,228,705
	\$ 15,339,378	\$ 13,947,815

APPROVED ON BEHALF OF THE BOARD:


John M. Alston
Director


Peter K. Gummer
Director

The accompanying notes are an integral part of these financial statements.

**STATEMENTS OF LOSS AND DEFICIT
FOR THE SIX MONTHS ENDED DECEMBER 31, 1997
AND THE YEAR ENDED JUNE 30, 1997**

	December 31 1997	June 30 1997
REVENUE		
Interest income	\$ 11,859	\$ 3,761
EXPENSES		
Administrative	762,611	870,609
Amortization	1,272	3,442
Writedown of investments	170,508	---
Loss on sale of investments	966,603	127,711
Share of losses in affiliated companies, accounted for on the equity basis	2,442,288	3,560
Foreign exchange loss	---	1,450
Interest	3,513	85,650
	4,346,795	1,092,422
NET LOSS FOR THE PERIOD	(4,334,936)	(1,088,661)
DEFICIT, Beginning of period	(24,413,861)	(23,325,200)
DEFICIT, END OF PERIOD	\$ (28,748,797)	\$ (24,413,861)
LOSS PER SHARE		
	\$ (0.27)	\$ (0.09)

The accompanying notes are an integral part of these financial statements.

**STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE SIX MONTHS ENDED DECEMBER 31, 1997
AND THE YEAR ENDED JUNE 30, 1997**

	December 31 1997	June 30 1997
CASH PROVIDED (USED) BY		
OPERATING ACTIVITIES		
Net loss for the period	\$ (4,334,936)	\$ (1,088,661)
Items not involving cash:		
Amortization	1,272	3,442
Writedown of investments	170,508	---
Loss on sale of investments	966,603	127,711
Share of losses in affiliated companies	2,442,288	3,560
	(754,265)	(953,948)
Changes in non-cash working capital balances:		
Accounts receivable	(432,613)	81,947
Note receivable	250,000	---
Accounts payable	741,700	(239,863)
CASH USED BY OPERATING ACTIVITIES	(195,178)	(1,111,864)
FINANCING ACTIVITIES		
Common shares	355,544	3,354,284
CASH PROVIDED BY FINANCING ACTIVITIES	355,544	3,354,284
INVESTING ACTIVITIES		
Debenture receivable	(2,720,000)	---
Due from affiliated companies	1,851,375	(653,049)
Adjustment of interest in affiliated company due to reciprocal shareholdings	(4,629,255)	---
Investment in shares	(107,194)	(598,080)
Proceeds on sale of shares	2,664,502	985,669
Proceeds on sale of interest in mineral properties	---	40,000
Purchase of mineral properties and expenditures on mineral properties (net of flow through tax effect)	(1,851,661)	(2,013,727)
Purchase of capital assets	---	(614)
Increase of equity due to reciprocal shareholdings	4,629,255	---
CASH USED BY INVESTING ACTIVITIES	(162,978)	(2,239,801)
INCREASE (DECREASE) IN CASH	(2,612)	2,619
CASH, Beginning of period	3,952	1,333
CASH, END OF PERIOD	\$ 1,340	\$ 3,952

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1997 AND JUNE 30, 1997

1. NATURE OF OPERATIONS

The Company, directly and through joint ventures, is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

The recoverability of amounts shown for mineral properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development and future profitable production or proceeds from the disposition thereof.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Company:

(a) Going Concern

The accompanying financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. As at the date of issue of these financial statements, the Company is in a deficit position from accumulated operating losses and was experiencing a negative cash flow from ongoing operations and, therefore, its ability to meet future commitments on mining properties is not assured.

Continuation of the Company as a going concern is dependent upon obtaining additional capital. The financial statements do not include any adjustments relating to the realization of assets and liquidation of liabilities that might be necessary should the Company be unable to continue as a going concern.

Although successful resolution of these uncertainties is not assured, management is of the opinion that additional capital can be raised.

(b) Marketable Securities

Marketable securities are valued at the lower of cost and market.

(c) Investments

When the Company has significant influence over its investments, they are accounted for by the equity method. The investment is initially recorded at cost and the carrying value adjusted thereafter to reflect the changes in the Company's share in the equity of the investee. Where the Company does not have significant influence investments are recorded at cost. Income is recognized to the extent of dividends received. When there is a decline in value other than a temporary decline, the investment is written down to recognize the loss.

(d) Capital Assets

Capital assets are recorded at cost. Amortization is computed using the declining balance method with rates varying from 20% - 30%.

(e) Mineral Properties and Deferred Costs

Costs of acquisition and development of mineral properties are capitalized on an area of interest basis. Amortization of these costs will be on a unit of production basis, based on estimated proven reserves of minerals of the areas should such reserves be found. If an area of interest is abandoned or management has indicated that further development appears unlikely, the costs thereto will be charged to income in the year.

(f) Foreign Currency

Foreign currency accounts are translated to Canadian dollars as follows:

At the transaction date, each asset, liability, revenue, or expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in income in the current period.

(g) Flow-through Shares

Expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through arrangements are renounced to investors in accordance with income tax legislation. Mineral properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred and renounced.

(h) Joint Venture

Substantially all of the Company's exploration of mineral properties are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

(i) Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, note receivable, due from affiliated companies, investment in shares, and accounts payable. Unless otherwise noted, it is management's opinion that the

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1997 AND JUNE 30, 1997

Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values.

3. DUE FROM AFFILIATED COMPANIES

The amounts due from Savanna Resources Ltd., and other affiliated companies are non-interest bearing, due on demand and unsecured. The relationship of these affiliated companies is described in Note 5.

	December 31 1997	June 30 1997
Intercompany balances consist of the following:		
Savanna Resources Ltd.	\$ (571)	\$ 1,825,356
Baretta Mining Inc.	—	112,819
Cartier Mining Corporation	82,194	(5,217)
	\$ 81,623	\$ 1,932,998

4. DEBENTURE RECEIVABLE

The amount is due from Courage Investments Limited ("Courage") on December 31, 2002 and bears interest at the rate of 7% per annum payable on a quarterly basis until the debenture is repaid. The debenture is to be secured by all of the property and assets of Courage. The collectibility of this amount from Courage may be dependent upon future realization of added value from their long-term investments, some of which include shares in the Company and an affiliated company, Savanna Resources Ltd. ("Savanna"), or Courage raising additional financing. The Company accepted this debenture in exchange for certain debts to the Company from Savanna which had been assumed by Courage.

5. INVESTMENT IN SHARES

	December 31 1997	June 30 1997
(a) Savanna Resources Ltd.	\$ 2,131,565	\$ 1
During the period, the Company sold 4,300,000 shares at a price of \$0.07 per share, and issued an option on an additional 4,300,000 shares at \$0.08 per share to be exercised on or before December 23, 1999, reducing to their interest in Savanna Resources Ltd. to 28% or 27,451,000 common shares. The investment has been accounted for by the equity method. The Company had previously reduced the carrying value of its investment in Savanna and share capital (note 8(b)) by \$4,629,255 to adjust for reciprocal shareholdings. This adjustment has been reversed during the period due to the sale by Savanna of the majority of its shares in Rhonda. During the period, the Company recorded an equity loss of \$1,852,689. At May 8, 1998 the shares were trading at \$0.10 per share.		
(b) Purcell Energy Inc.	834,015	3,649,212
During the period, the Company sold 1,741,700 shares at an average price of \$1.22 per share reducing their interest to less than 5% or 641,550 common shares. The investment has been accounted for by the cost method. At May 8, 1998 the shares were trading at \$0.97.		
(c) Cartier Mining Corporation	1	589,600
The Company owns 47.2% of Cartier and has accounted for this investment using the equity method. During the period, the Company's share of investee losses amounted to \$1,288,330 of which \$589,599 has been recorded (June 30, 1997 - \$8,460) reducing the carrying value to a nominal amount. Excess losses have not been recorded as the Company has not guaranteed any of the investees debt or other commitments.		
(d) Baretta Mining Inc.	---	234,220
During the period, the company sold its 25% interest in Baretta Mining Inc. at its carrying value (Note 10(c)).		
	\$ 2,965,581	\$ 4,473,033

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1997 AND JUNE 30, 1997

6. CAPITAL ASSETS

	December 31, 1997		June 30, 1997	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and Equipment	\$ 25,098	\$ 16,129	\$ 25,098	\$ 14,857
Cost less accumulated amortization	\$ 8,969		\$ 10,241	

7. MINERAL PROPERTIES

- a) **Courageous Lake / Jax**
The Company holds a 100% interest in six leases and seven claims within close proximity to Courageous Lake in the Northwest Territories.
- b) **Epworth**
The Epworth property is located in the Northwest Territories approximately one hundred and seventy eight kilometers southeast of Kugluktuk. The Company holds a 50% joint venture interest in six hundred thousand acres.
- c) **Rocknest**
The Rocknest property consists of a 100% interest in four hundred and twenty thousand acres which is located adjacent and south of the Epworth joint venture lands.
- d) **Harley**
The Harley property is situated in the Northwest Territories approximately 60 kilometres south of Kugluktuk. The Company holds a 100% interest in a 19.425 hectare block of claims.

The Company is satisfied that titles to mineral properties are valid and are not subject to any environmental constraints under present legislation.

8. SHARE CAPITAL

- (a) **Authorized:**
Unlimited number of common shares
Unlimited number of first preferred shares
- (b) **Issued**
Common shares

	December 31 1997		June 30 1997	
	Number	Amount	Number	Amount
Issued, beginning of period	16,045,973	\$42,271,821	12,894,968	\$38,917,537
Issued through private placements				
June 30, 1997 - net of issue costs of \$109,860	---	---	1,611,200	2,145,750
Employee stock options exercised for cash	5,000	7,500	26,000	58,000
Flow through shares issued for cash				
December 31, 1997 - net of tax effect of \$75,000)	126,695	96,044	---	---
June 30, 1997 - net of tax effect of \$909,000	---	---	1,513,805	1,150,534
Issued, end of period	16,177,668	42,375,865	16,045,973	42,271,821
Flow through shares to be issued (1)	315,000	252,000		
	16,492,668	\$42,627,865	16,045,973	\$42,271,821

(1) These shares were issued subsequent to year end after receiving regulatory approval.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1997 AND JUNE 30, 1997

Shares held by an affiliated company:

Shares held, beginning of period	(4,221,800)	(4,629,255)	(4,168,100)	(4,743,630)
Shares purchased during the period	---	---	(53,700)	(114,375)
Reversal due to sale of interest by affiliate	4,221,800	4,629,255	---	---
Shares held by an affiliate, end of period	---	---	(4,221,800)	(4,629,255)
Adjusted share capital, end of period	16,492,668	\$ 42,627,365	11,824,173	\$ 37,642,566

The Company and Savanna Resources Ltd. (note 5(a)) had reciprocal shareholdings, and previously accounted for their investments in each other on the equity basis. Share capital had been adjusted to reflect a reduction for the number of issued shares that Savanna Resources Ltd. holds in this Company. During the period Savanna sold the majority of its shareholding in Rhonda and therefore the reciprocal adjustment has been reversed.

- (c) The Company has an employee stock option plan reserving 1,244,000 (June 30, 1997 – 979,000) common shares for issuance to employees, directors and key executives. Details of options outstanding as at December 31, 1997, are as follows:

10,000 common shares at \$2.20 per share expiring May 1, 1998;
145,000 common shares at \$1.50 per share expiring Dec 4, 1998;
45,000 common shares at \$1.80 per share expiring from October 1998 to February 2000;
694,000 common shares at \$2.50 per share expiring April, 2000;
10,000 common shares at \$2.80 per share expiring June, 2000;
50,000 common shares at \$1.20 per share expiring from February 2000 to November, 2000;
10,000 common shares at \$2.20 per share expiring May 1, 2001;
10,000 common shares at \$1.60 per share expiring March 6, 2002; and
270,000 common shares at \$1.60 per share expiring September 16, 2002.

- (d) The company had 1,555,000 (June 30, 1997 – 2,132,500) common share purchase warrants outstanding at December 31, 1997 as follows:

500,000 common shares at \$1.60 per share expiring April, 1998;
125,000 common shares at \$1.85 per share expiring June, 1998;
250,000 common shares at \$1.50 per share expiring December, 1998;
500,000 common shares at \$1.65 per share expiring February, 1999; and
180,000 common shares at \$1.92 per share expiring February, 1999.

9. INCOME TAXES

Under Canadian Income Tax Law, development and exploration expenditures are subject to certain restrictions in deductibility. The Company has total expenditures of approximately \$8,434,000 (June 30, 1997 - \$6,996,000) available at December 31, 1997, to be carried forward to reduce future taxable income. Approximately \$ 3,629,000 (June 30, 1997 - \$3,629,000) of these expenditures are successor costs which may be deductible from income attributable to certain resource properties.

The Company has non-capital losses of \$ 4,499,000 (June 30, 1997 - \$3,847,000) which may be carried forward to reduce future taxable income. The right to claim these losses expires \$80,000 in 1998, \$105,000 in 1999, \$480,000 in 2000, \$1,160,000 in 2001, \$886,000 in 2002, \$1,090,000 in 2003, and \$698,000 in 2004. The difference between the Company's effective tax rate of 44% and the tax provision provided of \$ nil is due to unrecorded tax recoveries and loss carryovers.

10. RELATED PARTY TRANSACTIONS

During the period ended December 31, 1997, the Company had the following transactions with related parties:

- reimbursed \$331,525 to Savanna Resources Ltd. in respect of overhead charges;
- paid a management fee of \$60,000 to Savanna Resources Ltd. for services provided during the period;
- sold to Savanna Resources Ltd. 3,975,000 shares of Baretta Mining Inc. for a total of \$234,220, which was the carrying value of the investment.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1997 AND JUNE 30, 1997

During the year ended June 30, 1997, the Company had the following transactions with related parties:

- (a) reimbursed \$461,263 to Savanna Resources Ltd. in respect of overhead charges;
- (b) paid a management fee of \$240,000 to Savanna Resources Ltd. for services provided during the year;
- (c) purchased mineral properties from Savanna Resources Ltd. for a total purchase price of \$73,754 cash;
- (d) sold mineral properties to Cartier Mining Corporation for a total purchase price of \$40,000 cash;
- (e) received from Altmark Energy Inc. by way of a dividend 1,708,800 common shares of Cartier Mining Corporation valued at \$0.35 per share for a total of \$598,080;
- (f) pursuant to the January 1, 1997 amalgamation of Altmark Energy Inc. and Purcell Energy Ltd., received 2,563,200 common shares of Purcell Energy Ltd. in exchange for 8,544,000 Altmark Energy Inc. common shares.
- (g) issued to certain directors of the Company 26,000 shares through the exercise of options at \$1.80 to \$2.50 per share for total proceeds of \$58,000;

All related party transactions have been recorded at the exchange amount.

11. REMUNERATION OF DIRECTORS AND OFFICERS

No remuneration was paid directly by the Company to the Directors and Officers during the period ended December 31, 1997. During the period, \$219,419 (June 30, 1997 - \$297,566) was paid by the Corporation to Savanna Resources Ltd., which provides remuneration to the Officers of the Corporation, as reimbursement of administration and overhead expenses. No options were exercised by the Directors and Officers during the period ended December 31, 1997. During the period ended June 30, 1997, exercise of options by Directors did not result in any deemed remuneration.

As at June 30, 1997 the Officers and Directors held options to purchase a total of 764,000 common shares at exercise prices ranging from \$1.20 to \$2.50 per share. The stock options vest 25% annually over four years.

The Company has agreements with four Officers under which it has committed to compensate them or their estates approximately \$420,000 in the event of termination of their positions as a result of a change in control of the Company, as defined in the respective agreements.

SCHEDULE OF MINERAL PROPERTIES FOR THE SIX MONTHS ENDED DECEMBER 31, 1997

	Opening	Expenditures (Disposals)	Closing
NORTHWEST TERRITORIES			
Courageous Lake/Jax			
Acquisition	\$ 1,005,807	\$ 7	\$ 1,005,814
Exploration	979,020	(297,500)	681,520
Epworth			
Acquisition	1,504,139	---	1,504,139
Exploration	5,822,031	2,137,411	7,959,442
Harley			
Acquisition	---	36,698	36,698
Exploration	150	49,349	49,499
Rocknest			
Acquisition	412,600	24	412,624
Exploration	4,319	672	4,991
	9,728,066	1,926,661	11,654,727
MISCELLANEOUS	213	---	213
Less: tax effect of flow-through share renunciations	(2,631,000)	(75,000)	(2,706,000)
TOTAL	\$ 7,097,279	\$ 1,851,661	\$ 8,948,940

The opening amounts have been reclassified to adjust for Harley and Rocknest properties previously included with Epworth. Total expenditures, dispositions and write downs, and tax effect of renunciations to mineral properties for the year ended June 30, 1997 were as follows:

Total expenditures	\$ 2,922,726
Total dispositions and write downs	\$ (40,000)
Total tax effect of renunciations	\$ (909,000)

CORPORATE INFORMATION

BOARD OF DIRECTORS

JOHN M. ALSTON*

Chairman and Chief Executive Officer

PETER K. GUMMER

President and Chief Operating Officer

GLEN R. ALSTON

Vice-President, Investor and Public Relations

RICHARD D. CARMICHAEL, C.A.

Secretary-Treasurer and Chief Financial Officer

BERNARD BENNING*

Consultant, Alberta Tourism Partnership

THOMAS W. WHITTINGHAM*

Business and Energy Consultant

**Audit Committee*

OFFICERS

JOHN M. ALSTON, B.S.C., P. GEOL.

Chairman and Chief Executive Officer
Professional geologist, more than 50 years' experience
in the natural resource industry.

PETER K. GUMMER, B.S.C.

President and Chief Operating Officer
Professional geologist, more than 30 years' experience
in mineral exploration and mining projects in the
Americas, Europe, and Australia.

RICHARD D. CARMICHAEL, C.A.

Secretary-Treasurer and Chief Financial Officer
Chartered accountant, extensive experience in the
financial sector of the mining and petroleum
industries.

GLEN R. ALSTON, B.COMM.

Vice-President, Investor and Public Relations
Experienced in the investment and financial industry.

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MONTREAL TRUST

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AUDITORS

BDO DUNWOODY

#1500, 800 - 6 Avenue SW
Calgary, Alberta T2P 3G3

BANKERS

ROYAL BANK OF CANADA

355 - 8 Avenue SW
Calgary, Alberta T2P 2N5

STOCK EXCHANGE

Listed: Alberta Stock Exchange
Calgary, Alberta
Trading Symbol: RDM

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